ADDRESS TO ANNUAL GENERAL MEETING
OF LILLYDALE FAMILY SUPPORT

Bishop Peter Hollingworth
Executive Director
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Notwithstanding the remarkable events of the past week, the Brotherhood of St Laurence believes that reform of our tax system provides Australia with important and new opportunities which are still possible. While we opposed the package the Government brought to the Summit we supported the priority tax now has on the reform agenda. Significant changes to our tax system provide one of the few avenues to a fairer deal for low income and disadvantaged Australians. It is of the utmost importance that there is no loss of nerve on the part of Government at this time.

I do not accept that the lead up to the Summit and the Summit itself were a waste of time. They have provided the opportunity for healthy public debate. As much as anything I believe this debate has reaffirmed broad community support for the more positive features of our tax system. In particular, our reliance on progressive income tax reflects Australian's support for directness openness and redistribution. The tax system that we take into our third century as a nation must reflect these values if it is to retain community support.

As the White Paper points out, the taxation system has lost much of its public credibility in recent times basically because it is open to such abuse and because it no longer treats all people in the same way. The fact that some have been able to regard taxation as a voluntary option has eroded our public morality regarding the obligation to pay tax.

Unfortunately, a public attitude has emerged, often backed by superficially appealing philosophical arguments that taxation is a form of evil because it takes out of the hands of individuals and puts into the hands of government.

Negative views of taxation in recent times have been linked with arguments of individual liberty in ways which tend to ignore the fact that we now live in a complex, urban, technological society involving substantial management and servicing. It is an obvious but often forgotten fact that technologically advanced societies are also high cost societies. Thus, if we want the privilege of such public goods as freeways, health services, retirement benefits, housing subsidies, adequate educational opportunities and legal services then there is a price to be paid and taxation is the keystone.

The time has come to reverse these negative views about taxation and to set them in a more positive and ethically based framework. Far from thinking in popular but negative terms about "the tax burden" or the "tax grab" we should be thinking more responsibly about the "tax obligation". Taxation is a responsibility placed
upon us because it is one of the responses we have to make in accepting the privileges and benefits arising out of modern technological development.

Two often we are presented with false choices between economic efficiency at the cost of equity or equity at the cost of efficiency. Confronted with daily reminders of the demoralising effects of unemployment we cannot believe that it is efficient for more than 700,000 Australians to be denied the opportunity for productive work. We cannot believe it is efficient for already wealthy people to enjoy tax free incomes while the unemployed face marginal tax rates of 100 per cent. Rather than curtailing efficiency we believe a more equitable tax policy can increase our national wealth, and our national morale. Of course, none of this implies that one should adopt a negative attitude to the creation of wealth and the reformed system must encourage that but do so in a framework of agreed national objectives.

There are several reasons why the welfare sector has become more vocal in recent years. One is because there are increasing levels of poverty especially among families due to unemployment, family breakdown, changing social structures and an inadequate income security system. These extremely complex issues cannot be solved simply by moral exhortations to work harder, stay together as a family and pull ourselves up by the bootstraps. Unfortunately these problems bring with them a considerable financial cost which has to be shared by the whole community.

A second reason is that these increased levels of poverty and unemployment have placed great strain on our service delivery systems which have been unable to provide adequate assistance.

Working at street level in the low income suburb of Fitzroy forces us daily to deal with the problems of growing numbers of families and children living below the poverty line. It is difficult to believe that the Australian community would begrudge Government the money necessary to begin a systematic attack on poverty.

Two factors have lead us inexorably into this tax debate demanding tax reform. On the one hand we find pensioners and beneficiaries trapped in poverty as a result of the high marginal tax rates arising out of the combined effects of the tax and income security system. One the other hand we are constantly reminded - usually by our critics - that our pleas to reduce poverty require additional government expenditure, and that we should accept some responsibility to say where the additional revenue could come from.

The question might be asked - why should the poor have first claim on the taxation system? We should remember that there is a long historical tradition, going back to the ancient scriptural practice of the tithe on which that claim is based. The new tax is the old biblical tithe and one of its fundamental purposes was to assist the poor, the fatherless, the widowed, the outcast and the stranger in local communities, before the advent of the modern urbanised corporate state.
In Australia, our tax system is the result of a hard fought struggle between competing claims over 85 years. We do not believe that Australians will easily abandon a long held commitment to a progressive income tax system based on egalitarian values.

Looking to the future, it is understandable that the government should want a system which is effective in collecting tax, efficient in its disbursement and simple to administer and interpret. But we must ensure that important questions of equity do not take a back seat in the process of proposed change. Indeed, our basic concern about the White Paper was that it did not provide a long term strategy for reform that will restore full employment and reduce poverty and inequality.

Over the past ten years it is low income groups - particularly low income groups with children - that have experienced the most significant relative declines in their disposable incomes. In comparison, taxpayers on average incomes and above have enjoyed real increases in their income despite an increasing tax burden. Looking back over the past 30 years we see that, despite increasing tax rates, a person on average weekly earnings has had a substantial increase in real, after tax income - an increase of approximately 70 per cent. The case for middle and upper middle income tax relief is not as strong as had been claimed, while the case for low income tax relief is considerably stronger. Whether this matter is addressed or not, we shall probably know by the end of September when the Government’s reform package is announced.

In our view there should be three fundamental objectives in tax reform -

1) It should enable improvement in the relative position of low income groups including pensioners, beneficiaries and the working poor, especially those with dependent children. This would not have been achieved by Option C. Any shift to a broad based consumption tax would probably create serious problems in ensuring compensation. Furthermore there was no commitment in the White Paper to income security reform.

2) It should be progressive in the sense that those who receive less pay less and those who receive more pay more tax. At best Option C would have preserved an unsatisfactory status quo, but more likely the broad based consumption tax would have made it more regressive, notwithstanding income tax cuts, compensatory measures and increases in the tax free threshold.

3) It should improve employment opportunities by encouraging well targeted capital investment. Many factors have to be taken into account, chief of which are to ensure that a changed tax system does not fuel inflation and that the reforms help to target more efficiently capital investment into areas which will generate jobs. For example, a well targeted capital gains tax could be extended to achieve true neutrality, projecting capital funds into areas of identifiable economic and employment growth.
We believe that these objectives, coupled with the values of equity, efficiency and increased revenue could be achieved simultaneously.

Our reform strategy is and always has been via the direct tax route, starting with Option A but extending the definition and range of taxable income. We have always maintained that there should not be a substantial shift away from direct to indirect taxation and that the present tax mix should not be changed.

We believe that a reasonable and well conceived tax on wealth could be introduced and collected without acting as a disincentive to the basic issue of wealth creation, that fringe benefits could be taxed and other tax concessions critically examined, especially in those cases where opportunity is still provided for tax minimisation. Income splitting practices should be reduced, while avoidance and evasion tackled by reducing the use of provisional taxation and extending withholding taxes more generally on all non-PAYE employees. Our estimates suggest that these additional direct tax measures could generate five billion dollars in the longer term from an expanded income tax base. The extension of a wealth tax, beyond the current assets test on pensioners and beneficiaries would be more equitable and could offer a broader wealth tax at a lower level. A comprehensive wealth tax package could provide an additional 1 billion dollars per annum. Over time this could yield additional revenue of about 6 billion dollars per annum.

Income tax rate changes should be directed first to reducing poverty traps and raising the thresholds at which various marginal tax rates apply, particularly the tax free threshold. If the Government does decide to abolish the tax threshold it will need to take the greatest care to ensure that certain groups of low income earners in families are not seriously disadvantaged, and that adequate compensation measures are introduced, such as tax credits. Particular concern should be expressed at any suggestion to means test family allowances. This was a matter that appeared unexpectedly on the Summit agenda without adequate analysis of its impact on different community groups. Those who argue that family allowances should not go to better off families often forget its function to achieve equity as between those with dependent children and those without.

In conclusion, an income tax system reformed along these lines would maximise the equity of the combined impact of both taxation and government expenditure. The tax system would be more progressive and at the same time, revenue would be available to spend on essential areas such as income security, public housing and community services. Granted that the level of revenue available has now been dramatically reduced, it is still possible to introduce fair reforms to the tax system and thereby generate more revenue in favour of the disadvantaged.